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SUPERMARKET BUSINESS

VOLUME 47/NUMBER 8
AUGUST 1992

THE THINKING PUBLICATION FOR THINKING PEOPLE

HAS THE EDI TRAIN LEFT THE SUPERMARKET STATION?

At Tesco in the UK, EDI Pays Off Big
PAGE 26

Shaw's David Jenkins Calls for Action
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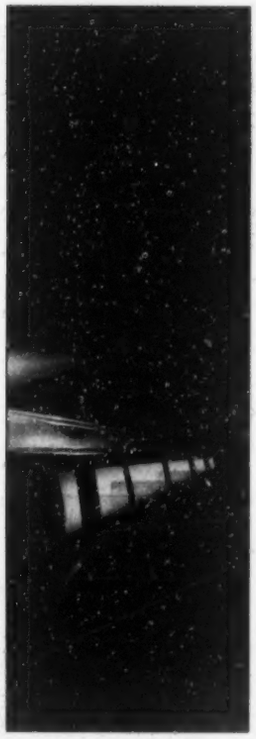

COVER ILLUSTRATION: DOUG ARCHER

ON THE COVER

Can the supermarket industry catch the EDI train before it's too late?

SUPERMARKET BUSINESS

AUGUST 1992 — VOLUME 47 NUMBER 8

THE THINKING PUBLICATION FOR THINKING PEOPLE

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EDITOR'S VIEW

Do We Really Want Efficiency?

By Ken Parich, Editor-In-Chief

One of the problems with youth, and everything that comes after that, is that youth believes that because a thing can be done in a demonstrably better way, it should undoubtedly be done. You would have to be a remarkably early cynic to believe and behave otherwise. In my own youth I couldn't stand people who didn't want to act on what could be imagined as possible to do, if it were clearly a better way. That's what progress meant.

For example, in the mid-Sixties, long before there was a Universal Product Code, long before scanners, there was quite a bit of industry discussion about the need for "direct" purchase orders, employing computer-to-computer communication without the need for a paper purchase order. The whole idea was to reduce paper communications, reduce delivery time and ultimately reduce inventory itself. This was universally accepted as a good idea, since it would eliminate unnecessary cost. That was the way industry leaders thought. It made sense. So of course, it would happen.

Eventually, the Universal Product Code was developed, then scanners, and then attention turned to the Uniform Communication Standard, which was a practical means of computer-to-computer communication. This was in the days of mainframes, long before PCs. But industry-wide acceptance of UCS has been slow to non-existent. As in the old Soviet Union, every five years we seem to have another plan. In the latest joint-industry effort, David Jenkins of Shaw's says he means business and means to get industry-wide action.

I hope he is right. A lot of things that should happen often don't until the gods seem to agree that they should. Perhaps the planets have to align themselves in some perfect order, and then everybody says: "Gee, that sounds like a good idea, why don't we do that?" Just as if it were the first time anybody ever heard of it. I also suspect that that's one of the reasons young people often get annoyed with older people. They don't like hearing that a good, new idea has been kicking around for a couple of decades or more.

Why does it have to be called partnering? It isn't something that only you and your partner can do. If it is, it's probably illegal...

In a business that is probably 90 percent or more replenishment, why do we insist on calling it buying and selling, when there is absolutely no question about whether a given warehouse or store is going to reorder a regular and accepted SKU. Buying and selling should be by exception. Ordering should be by exception. Stock of most grocery items should be replenished. What's the great mystery? Procter & Gamble and Wal-Mart are doing this, and you might think that one of the great mysteries of the Nile has just been revealed.

Why should it be called partnering? It isn't something that only you and your partner can do. If it is, it's probably illegal, if not indecent. The mystery, my friend, is that you want to rationalize a business that doesn't want to be rationalized. I wish David Jenkins all the luck in the world, because he is a good man and means well. But you and I know that if Osiris and Isis are not properly lined up with the right planets, and all in their proper houses, the Age of Aquarius will have come and gone and we will still be dropping paper invoices into the mail and triply scrutinizing those paper orders.

Why else would anybody in his right mind invent such complex practices as forward-buying inventory models, and store-door delivery models, whose actual functions leave more to doubt than to rational action? Tell the soft drink man that he should get all the product on the shelf, with none in the backroom. Go ahead. If he's not ready to listen, you might as well as well tell it to Osiris or Isis, or any other Egyptian gods you might know. But remember, this is an industry in which manufacturers are beginning to complain that food products are in the pipeline so long they are going stale before they reach the consumer.

Is this industry actually ready to con-

Continued on page 9

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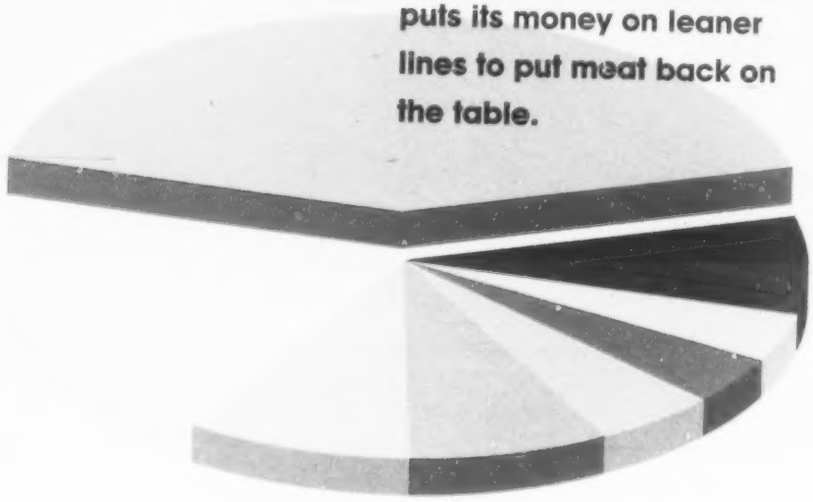
3rd Annual

MEAT DEPARTMENT OPERATIONS REVIEW

BY DAVID LITWAK & NANCY MALINE

The once-beloved "fatted" calf is headed for virtual extinction, as the industry puts its money on leaner lines to put meat back on the table.



You need be neither rancher nor retailer to know that red meat tonnage has been the chief casualty of the mealtime war on fat and cholesterol. But indications are that the industry's most proactive response—the development of leaner meat choices—has begun to turn things around, according to the results of our third annual Meat Operations Review.

Leaner beef cuts are now available in 80% of the nation's supermarkets, and 63% indicate that the lower-in-fat lines will be expanded in the future. In some operations, leaner selections have completely replaced the previous choice cuts, with ground beef being a typical example.

Although debates rage on over the actual extent of the health benefits they offer, the new breed of meat products has been accepted by consumers, and contributed to improved bottom line performance as well.

Last year's supermarket meat department sales totaled $41.5 billion, a 1.9% increase over the 1990

total of $40.7 billion.

While smaller than the 3% gain posted from 1989 to 1990, it was certainly acceptable and even encouraging given the percentage of consumers still leery of red meat, and the strained economic conditions.

However, recent events may put somewhat of a damper on the category's slow but steady progress. Highly publicized incidents of food-borne illness attributed to meat last winter were blamed by the media and some industry representatives on faulty meat inspections.

While it is still too early to estimate the impact of the incidents on 1992 business, Dr. Jim Marsden, vice president of scientific affairs for the American Meat Institute (AMI), described them as "some of the most significant assaults to science that we (the meat industry) have ever faced."

A breakdown of departmental sales by specific variety shows that 1991 was somewhat of a comeback year for beef. The combination of essentially stable per capita consumption (-0.7%) and a 2.8% price increase produced a dollar volume improvement of 2.1% over the prior year. In contrast, 1990 consumption was down 1.4% while prices increased by 4.2%.

Despite the consumption declines of recent years, beef is still the highest dollar sales item in the supermarket, with volume exceeding $17.6 billion nationally in 1991. On such a basis, any sales increase is significant for retailers. Of course, a sales increase that reflects tonnage growth and not just retail price increases, as was the case in 1991, is the most encouraging trend, both for retailers and their beef suppliers.

Poultry results reflected an interesting change in 1991. While consumption was up slightly (2.7%), the gain was only half that of the prior year. This was coupled with slippage in the retail price, which was down just under a percentage point. In 1990, prices remained stable along with the healthier consumption increase.

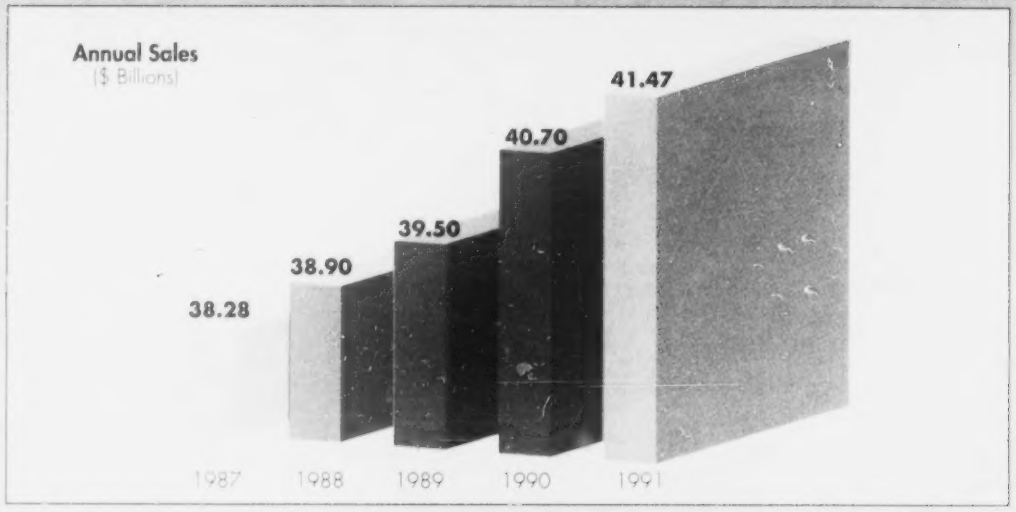
It is possible that this somewhat disappointing showing was due in part to concerns raised by the media and consumer groups over salmonella, and other potential health threats. Lower prices reflected the curtailed demand, which under perfect marketing conditions would have continued to increase at the higher rate exhibited in prior years.

Pork was a winner last year. Even though its per capita consumption increased by only a modest 1.2%, this marked a sterling recovery from 1990, when both dollar volume and tonnage fell drastically.

Over the past few years, sales of pork have fluctuated based on whatever the popular perception of its color (red or white meat?) and fat content were at a given time. Perhaps the 1991 results mean consumers are finally convinced that pork is, indeed, a "white" meat.

Complimenting pork's tonnage gains, was a "gentle" price increase of 3.3%, compared with price hikes at least

MEAT SALES & PROFITS



It's not as new as the bakery, not as tempting as the deli, not as pleasing to the eye as the produce department. But the meat department accounts for more shopper dollars than any other "fresh" instore section. In 1991, it generated $41.5 billion in sales, an increase of more than $750 million from its volume in 1990.

That breaks down to an average volume of of $29,896 per store, per week. Most department managers (60%) reported sales increases last year. Despite the trend toward reduction of meat items in the American diet, the department's sales still represent a healthy chunk of total store volume—16.2% in 1991. With average gross margins of 24.4%, meat contributed 16.8% of total store profits.

Stores that Have Meat Departments

Number **30,800** Percent of Supermarkets **100%**

Total Sales of Fresh and Cured Meat* **$41,474,813,000**

*Does not include fish, or products sold at the service deli.

Average Weekly Sales per Store

Mean **$29,896** Median **$26,900**

Conventional Stores **$20,400** Larger Stores **$37,200**

Average Gross Margins

Mean **24.4%** Median **23.0%**

Less than 18%	**3%**
18 – 20%	**25**
21 – 22%	**31**
23 – 24%	**24**
25 – 26%	**9**
Over 26	**8**

Changes in Dollar Sales (1991 vs. 1990)
(% of Companies Reporting)

Higher	**60%**
Lower	**20**
No Change	**20**

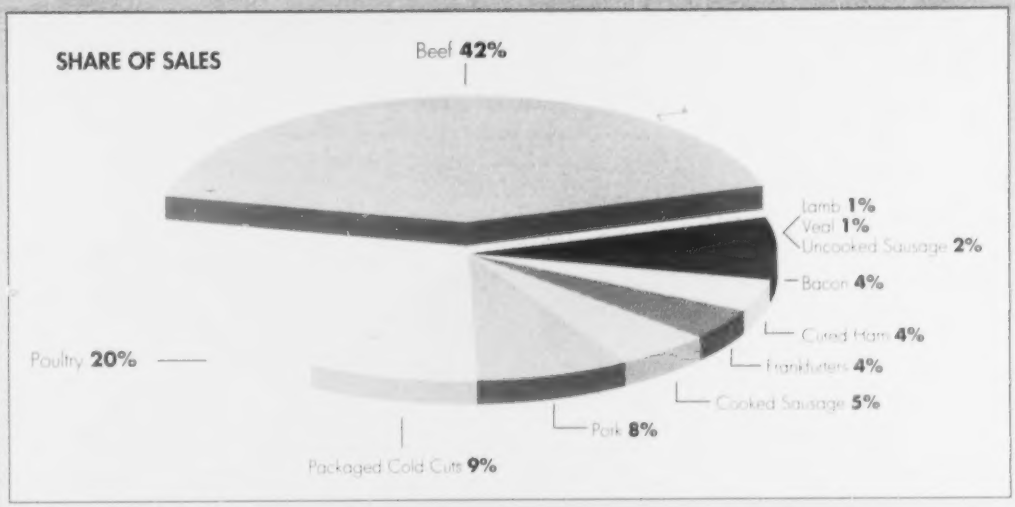
Share of Total Store Sales

Mean **16.2%** Median **16.0%**

Contribution to Total Store Profits

Mean **16.8%** Median **15.2%**

MEAT PRODUCTS



Despite the pounding it's taken in recent years, beef still represents the largest portion of meat sales (42%). One of every five dollars spent in the meat section goes toward a poultry purchase, with that sub-category gaining a percentage point in sales over the previous year.

That means consumers forked over a hearty $17.6 billion for beef alone in 1991. Poultry raised $7.75 billion in sales, while pork, the "other white meat," brought in $2.9 billion.

Even in the meat department, convenience is becoming the order of the day, with more supermarkets offering value-added products. Ready to cook meat items, now carried by 87% of supers, cut down prep time without diminishing homemade appeal. When homemade isn't an issue, consumers turn to packaged ready to eat (41%) and cooked to order meat selections (13%). Side dishes account for 20% of value added meat sales.

Branded chicken is the most popular of the specialty selections offered, with nine out of 10 departments selling it. Ground beef remains a staple, but today it helps if you make it lean. "No roll" and branded lamb and veal are offered to a lesser extent, but respondents expect sales to pick up in the future. Boxed beef delivery has become nearly universal, with 93% of stores receiving beef in that form.

Dollar Sales of Fresh Meats (Add 000)

Beef	$17,626,713
Poultry	7,754,361
Pork	2,984,762
Lamb	958,893
Veal	380,131

Type of Beef Used

Boxed Beef	93%
Case Ready	4
Close Trimmed Boxed Beef	2
All Others	1
Total	100%

Sales of Value-Added Meat Products

Ready to Cook Entrees	87%
Packaged Ready to Eat	41
Side Dishes	20
Cooked to Order Meals	13

Sales of Specialty Items (% of Companies)

	Now Selling	More in Future	Less in Future
Branded Chicken	90%	63%	0%
"Lean" Ground Beef*	80	63	0
Choice	70	43	29
No Roll	40	75	0
Branded Lamb	30	66	0
Branded Veal	30	56	0
Natural Beef	14	16	0
Certified Angus	10	10	3
Other Branded Beef Cuts	10	10	0

*Avg. 87% Lean

double that number in previous years. In all, dollar sales of pork rose 4.5% in 1991.

The rebound in pork sales may be a come-from-behind story in the most literal sense. That's because pork butts—especially those with the bone in—and other subprimal cuts, are helping some retailers increase their pork sales, while also satisfying greater numbers of customers.

The sales impetus comes from two new vacuum packing bags that allow the meats to be packed with the bone in. This allows the butts and other odd-shaped cuts to be shipped under a vacuum seal, and merchandised in whatever quantity the retailer needs to keep the case stocked during the day.

Albertson's (Boise, ID) has experienced a significant increase in bone-in pork sales, according to Cryovac (Duncan, SC), which developed the new bags. They also cite the case of the Lewis Grocery Company (Indianola, MS) which saw bone-in pork butt sales increase 400%, and as a result has added bone-in loins. Costco (Kirkland, WA) has also reported an increase in bone-in meat volume, with rib sales going up 122%.

According to Cryovac, the processor can now pack the meat to whatever specifications the retailer requires right off the processing line. And the retailer can work with the amount needed for the day's sales, without fear of running out late in the day, or suffering the high shrink usually associated with these cuts.

Customers should also benefit from this new process because they will be more likely to find their favorite bone-in cuts available throughout the day. This is because the product will have a longer shelf life, and the meat manager will be able to put out additional packages once the day's initial stock has sold out. Previously, the manager would have to open another large pack to cover a few hours at the end of the day.

Rounding out the non-poultry side of the meat department are lamb and veal. Per capita consumption of lamb stayed at just 1.5 lbs for the second year in a row. Prices for the meat rose about 2% in 1991. Veal was the poorest performer in the fresh meat section, with consumption decreasing by 9.1% to just one

pound. Price increases were insufficient to offset tonnage declines.

The slight gain in total meat department sales in 1991 sparked correspondingly subtle gains in most of the operating statistics associated with the department. For instance, average weekly sales per department were up just over 1.8%, to $25,896.

Weekly sales in conventional stores rose in 1991 to an average of $20,400. In larger stores, meat departments averaged just over $37,000 in volume.

While most operators (60%) did enjoy small increases in meat sales, gains were by no means universal. Twenty percent of the survey respondents reported declines from 1990 to 1991, while the remaining 20% reported flat sales in the department.

Profitability growth mirrored that of sales in 1991. The average gross margin rose to 24.4% last year, from 22.9% percent in 1990. Accompanying this was a slight increase in the meat department's average contribution to total store profits, which inched up to 16.8% in 1991 from 16.6% the year before.

The one major performance measurement that slid last year was the department's average sales per square foot, which declined from $10.55 in 1990 to just $10.44 last year. This was the result of a slight increase in average departmental size, to 2,480 square feet.

Even this small expansion, coupled with the low weekly sales increase, resulted in the loss of 11 cents per square foot per week. This was experienced by both conventional and larger stores. While not a major decline, it nonetheless represents movement in the wrong direction.

Variety, added value, ser-

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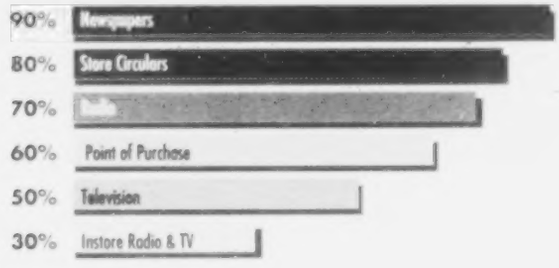
How Meat Department Is Promoted (% of Companies)



MEAT DEPARTMENT SPACE & LABOR

The average supermarket meat department was expanded by 70 sq. ft. in 1991 to 2,480 sq. ft. The expansion, however, cost the department 11 cents per square foot as weekly sales dropped from $10.55 per square foot in 1990 to $10.44 last year.

Supermarkets are trimming staff in all departments and meat is no exception. The staff cut (from 6.1 full-time equivalents to 5.4) resulted in reduced labor costs (9.2%, of sales from 10.2%), and increased productivity. Sales per employee rose from $4,169 in 1990 to $4,796 last year.

Size of Department (sq. ft.)

Mean **2,480**	Median **2,365**
Conventional Stores **2,075**	Larger Stores **2,790**

Average Weekly Sales Per Square Foot of Space

Mean **$10.44**	Median **$10.26**
Conventional Stores **$9.18**	Larger Stores **$13.59**

	(% of Companies)
Under $8.00	**9%**
$8.01 – $10.00	**27**
$10.01 – $12.00	**29**
$12.01 – $14.00	**22**
Over $14.00	**13**

Number of Employees

Full-Time	**4.1**
Part-Time	**2.5**
Full-Time Equivalents	**5.4**

Average Weekly Sales Per Employee

Mean **$4,796** Median **$4,889**

Cost of Labor As A Percent of Meat Sales

Mean **9.2%** Median **9.7%**

Under 8%	**3%**
8 – 9.9%	**30**
10 – 11.9%	**34**
12 – 14.9%	**27**
15% & Over	**6**

Departments Employing Trained Meat Cutters **81%**

MERCHANDISING & PROMOTION

Despite the increased presence of service counters, 70% of all supermarkets retain traditional self-service configurations in their meat departments. About a fifth (19%) offer both service and self-service options. Only 11 percent of the companies have no self-service available. Not surprisingly, half of these companies (50%) expect to phase even more products into self-service cases.

Supermarkets are making good use of the various tools available to promote their meat departments to store shoppers. A great majority of departments (90%) are using sampling to entice customers, while recipe cards (used by 75%) and nutrition fact sheets (70%) further assist patrons in meal planning and preparation. Cooking demonstrations and videos are entertaining but used to a lesser extent (50% and 19%, respectively).

How Meat Is Sold (% of Stores)

Self-Service Only	**70%**
Service Department Only	**11**
Combination	**19**

In Which Direction Will Your Stores Go In Future?

More Service Meat	**10%**
More Self-Service Meat	**50**
No Change	**40**
Total	**100%**

Use of Instore Promotions for Meat (% of Companies)

Sampling	**90%**
Recipe Cards	**75**
Nutritional Fact Sheets	**70**
Cooking Demos	**50**
Videos	**19**

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MEAT REVIEW

Continued from page 32

vice, and branded products are extra features that have been brought into many of the most successful supermarket meat departments.

The majority of managers responding to the survey said their departments offer some kinds of value-added products. About 87% offer prepared, ready-to-cook products, while 41% have packaged ready-to-eat entrees. Going a step further, 13% said their sections will cook items to order, and side-dish selections are offered by 20%.

Things aren't quite the same in even the raw meat case these days. Retailers are finding that it may no longer be enough to sell meat that is classified with nothing other than a grade. Although 70% of the stores sell "choice" beef, about 40% are now selling "no roll" cuts as well, and that percentage is expected by retailers to rise significantly in the future.

Branded meat products continue to carve inroads, as consumers demonstrate greater desire for quality assurance by opting for favored names—contrary in a sense to the declining brand loyalty apparent in the grocery department.This also may be due in part to the consolidation of producers and packers, and the heavier promotion of meat product brands available nationally.

Ninety percent of the meat operations now sell branded chickens, 10% carry Certified Angus and other branded beef products, and 30% sell branded veal and lamb items. According to the majority of retailers, the use of branded products in meat departments will increase in the coming years.

One might expect that the merchandising of value-added meat products, and some of the other extras now provided by the department, would add to labor costs. Surprisingly, retailers report that labor costs are down.

In 1990, it was reported that the equivalent of 6.1 full-time employees was needed to run the average meat department. In 1991, that figure dropped to 5.4 full-time staffers, bringing the average departmental labor cost down to 9.2% of sales. That combined with the 1991 sales increase improved sales per employee to an average of $4,796, up from $4,169 in 1990.

Part of the reason for the labor cost decline is the increased use of boxed beef. About 93% of the beef sold in supermarkets today is delivered boxed.

This lessens the need for skilled meat cutters in the stores. Not long ago, every meat department would employ at least one fully trained cutter; today, only 81% of departments employ these more highly-paid staffers. If the use of case-ready products (now only 4% of sales) catches on, labor may be reduced even further.

Promotion activity by the meat department utilizes most of the standard vehicles. Ninety percent of the survey respondents said their wares are included in local newspaper ads. Additionally, 80% said meat items are promoted in store circulars, while 70% use radio.

As in other departments, instore activity has become a significant aspect of the meat department's promotion efforts. In addition to the usual point-of-purchase signage, meat departments have gotten involved in more person-to-person contact in the store.

Most of that is supported by producers, suppliers or meat industry trade associations. For example, 90% of the operators said they use sampling programs in their stores, many conducted by vendors.

Customer information and education programs have also gained popularity, particularly in light of the health and nutrition issue. Recipe cards are offered by 75% of meat departments, according to the survey results, while 70% make nutritional fact sheets available, 50% present cooking demonstrations and 19% use video messages at the point of purchase.

While retailers' promotional efforts are obviously geared to improve their own sales, they also help to promote meat in the more universal sense—a must given the buffeting the commodity has been through over the years.

It is important that suppliers and packers adopt that same philosophy, and continue to promote not only their own items, but also the dissemination of facts about all meat products, especially with regard to the nutrition aspect.

THIRD ANNUAL REVIEW

GENERAL MERCHANDISE

Last year's five percent sales increase reflected acceptable growth for a non-traditional category in a difficult economy.

BY
DAVID LITWAK
&
NANCY MALINE

How much of a weapon should general merchandise be in the supermarket's battle against discounters and other formats cutting into its sales?

Should operators stress the category to try to beat some of the interlopers at their own game? Or should they minimize the nonfoods sections and underline the supermarket's traditional strengths—convenience, service and food product variety?

The answer, based on retailer responses to SUPERMARKET BUSINESS's Annual General Merchandise Operations Review, is an unqualified "well, maybe!"

Last year's general merchandise volume increase was marginally better than that of 1990, with supermarkets reporting an overall gain of 5% to the $11.99 billion mark, compared with a 3.9% increase the year before.

The small increase broke the recent year-to-year pattern of major/minor/major increases—in this case, in a negative way. Since growth in 1990 was only 3.9%, one would have predicted, given recent history, that 1991 would have been a boom year. But it didn't materialize.

What that 5% performance did constitute, however, was a healthy rate of growth for a non-traditional supermarket department during an economic period of limited opportunity for most retail endeavors... a healthy rate of growth despite fierce competition from mass merchandisers, wholesale clubs, and other retailers.

Although not spectacular, sales growth in 1991 was enjoyed pretty much across the board, with just over three-quarters (76%) of supermarket operators reporting higher general merchandise volume. Only 19% of the retailer respondents reported sales declines in the category.

Although virtually all supermarkets carry general merchandise, SKUs range from just a few items to vast offerings.

If these diverse departments were artificially collapsed into an average department, its weekly sales would be $7,484.

But since such actual "average departments" are few, it would seem more informative to look at the difference in average weekly sales by store format. Smaller stores, on average, pull in about $5,309 in weekly category sales. Larger supermarkets do more than twice that amount, $13,215 per week.

General merchandise has become a little more important to most stores, given the slight increase in the percentage of total store sales coming from the department —14.7% compared to 14.3% in 1990.

General merchandise margins also improved last year, with grosses averaging 34.2% as opposed to 1990's yield of 32.8%.

Despite those improved statistics, however, the department's share of total store profits remained the same. Last year, general merchandise produced an average of 14.8% of overall profits, only 0.1% higher than it did in 1990.

Of course, in larger food and drug combination stores, the contribution to store profit of the GM section was much higher, averaging 37%, but again, not an increase over the 1990 level.

General merchandise has always been a department that has clusters of hot products or sub-categories. Last year was no exception. Sales of pre-recorded video tapes, light bulbs, home/office and specialty merchandise were among the departmental "stars" of 1991.

Because of the great diversity of products sold in the department, it is easy for a new product line to make a splash, especially one that is coming into a market for the first time. For instance, 1991 saw the introduction of many products in supermarkets and other general merchandise outlets that were previously only available through television ads.

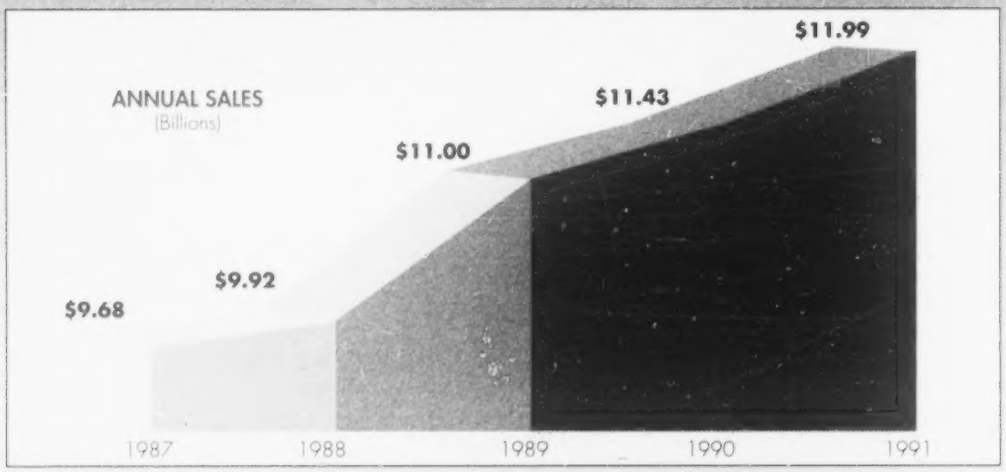
These "as seen on TV" products caught fire with shoppers who had seen their promotions over the airwaves for years. While some, such as car waxes and other automotive products, fit nicely into existing supermarket merchandise categories, others had to create their own niche, or be bundled together into a "TV specialty" category.

Other general merchandise lines have generated impressive sales increases in terms of percentages, having advanced from previously modest sales bases as the result of customer demand and heavier promotion. A good example is video sell-through.

Until recent years, the sale of pre-recorded videos was a small factor in supermarkets, with most of the action focused on rentals. But as growing numbers of distributors saw the potential business in supermarket traffic, promotions were launched and the supermarket became an important conduit for them.

Fast growing categories do not, however, account for much in the total scheme of general merchandise sales. Due to its great diversity, and the number of small product groups, the general merchandise sales pie is distributed in

GM SALES & PROFITS



Supermarket general merchandise sales climbed at a comfortable if not thrilling pace in 1991.

Volume rose by some $500 million in 1991 to just under $12 billion, an addition of 5% or $336 per store, per week versus 1990.

When asked how 1991 compared to 1990, three quarters (76%) of the general merchandise department managers responding to the survey reported higher sales in 1991, with increases averaging 4.8%. Nineteen percent reported departmental sales decreases, which averaged 3.9%. Five percent reported flat sales for the year.

How big a role does this category play in the big picture? According to our respondents, general merchandise represented an average of 4.7% of total supermarket sales, yielding a 14.8% contribution to store profits. Both figures are up slightly from 1990. Gross margin improved by 2.6% in 1991, checking in at 34.2% on average.

Stores that Sell General Merchandise

Number **30,800** Percent of Supermarkets **100%**

Average Weekly Sales

Mean **$7,484** Median **$7,614**

Conventional Stores **$5,30**· Larger Stores **$13,215**

Less than $6,000	**10%**
$6,000 – $7,000	**13**
$7,001 – $7,500	**32**
$7,501 – $8,000	**31**
$8,001 or more	**14**

Average Gross Margins

Mean **34.2%** Median **37.3%**

Less than 28%	**5%**
28 – 29%	**20**
30 – 31%	**31**
32 – 33%	**25**
34% or more	**19**

Changes in Dollar Sales (1991 vs. 1990)

(% of Companies Reporting)

Higher	**76%**	Average Increase **4.8%**
Lower	**19**	Average Decrease **3.9%**
No Change	**5**	

Share of Total Store Sales

Overall Mean **4.7%** In Combination Stores **10.8%**

Contribution to Total Store Profits

Overall Mean **14.8%** In Combination Stores **37.0%**

many slices. Only two categories—housewares and periodicals and books—account for more than 10% of total general merchandise sales.

Of the two, housewares is really a cluster grouping of many smaller sub-categories, including glassware, pots and pans, kitchen utensils, kitchen domestics, cutlery, rubberware, small kitchen appliances and accessories, and several others.

Photo supplies represented the third largest group in the department, with 10% of sales, up a point from 1990, with the increase due in part to promotions of new films, instant cameras, and film processing. Greeting cards, light bulbs, video products, and home/office supplies were also among those categories that had slight increases in their shares of the GM sales pie.

For every winner there has to be a corresponding loser. Several categories did lose share last year, though none receded more than a single percent. They were apparel, auto supplies, video cassette rentals and toys.

Almost two-thirds of the operators (64%) said they expanded the number of GM products that they carried last year. Thirty-one percent said that they carried about the same number of products, while only 5% stocked fewer items in 1991.

It appears the future holds further escalation of general merchandise in supers. Fifty-five percent of the respondents predicted that they will increase the number of products they carry in the future, while 31% will feature about the same number, and 14% anticipate a lessening of their assortments.

General merchandise-related services are also on the rise in supermarkets. Some, such as video rentals, involve a major investment, while others, including film-to-video transfer service, involve virtually no investment or space.

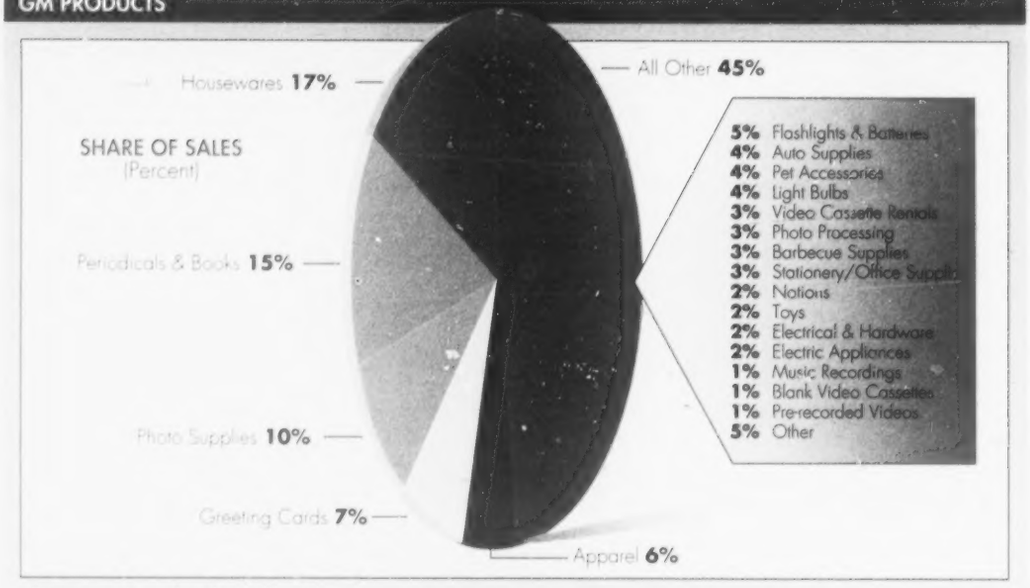
Video cassette rentals and sales are by far the most prevalent of these ancillary services, with almost three-quarters of the stores offering them. Availability of copy machines for shopper use and film processing have also become more common, offered last year by 62% and 55% of supermarkets respectively.

Other services making their way into the stores include key-making, postage stamp sales and other mail-related services, and fax machines for customer use.

Despite adding new products and expanding general merchandise services, the average size of the department remained the same—347 gondola feet—in 1991 as in 1990. Breaking this down by store format, the average department in a conventional supermarket measured just 235 feet, while in larger stores, that stretched to 1,085 gondola feet.

Of course, additional products and services need not dictate bigger central departments, since most stores do not segregate all general

GM PRODUCTS



The general merchandise sales pie is a highly segmented one, with the largest single slice involving housewares, at 17% of the category total. Next came books and periodicals (15%) and photography needs (10%). The remainder of the pie is even more sparingly cut into 18 individual sections, none of which account for more than a 7% share. All of the sub-categories retained the same share as last year, give or take 1%.

Most department managers responding to the survey (64%) said they increased the number of items carried in their departments in 1991, and 55% expect the trend to continue. Just under a third of the respondents said they carried the same number of items in '91 and will most likely maintain those levels through the balance of this year. Very few (5%) cut back on general merchandise inventory.

In addition to emphasizing lightbulbs, batteries and blank video cassettes to a greater extent last year, department managers had rave reviews for pre-recorded videos (both sell-through and rentals), declaring them the departments' biggest hits of 1991.

Number of GM Items Carried

In Past Year	
Increased	64%
Decreased	5
Stayed the Same	31
In Future	
Will increase	55%
Will decrease	14
Will stay the same	31

GM Items Most Frequently Added or Expanded

- Blank Video Cassettes
- Batteries
- Light Bulbs

Hottest GM Items in 1991

- Video Cassette Sales
- Video Cassette Rentals
- Greeting Cards
- "As Seen on TV" products

Special GM Services (Percent of Companies Offering)

Video Cassette Rental/Sales	74%
Copy Machine	62
Film Processing	55
Key Making	39
Postal	39
Package Mailing	39
FAX Machine	28
Film to Video Transfer Service	22
Jewelry Repair	<1

merchandise offerings in a single location of the store. In fact, only 14% do so. Most retailers (59%) elect to sell a portion of their items from a central section, and cross-merchandise the rest in other departments throughout the store. The remaining 27% integrate just about all their non-foods goods in other sections.

The increase in general merchandise sales, combined with stability in terms of space allocation, boosted sales per gondola foot in the category last year. In 1991, the figure rose to $21.57, an increase of about 4% over the 1990 figure of $20.72.

Another measurement that improved last year in the general merchandise category was sales per employee, which increased to $3,254 from $2,859 the previous year.

Because products are merchandised throughout the store, the labor costs are splintered in the same manner, and distributed among grocery, courtesy desk and even perimeter department personnel.

The number of GM employees did not change dramatically in the last year, when it took the equivalent of 2.3 employees to run the department. But on average, labor represented 6.1% of sales last year, up from 5.1% the year before.

In addition to wage and benefit increases and the offering of additional services, the curtailed use of outside service merchandisers may have contributed to the increase in labor costs. In 1991, 45% of those responding to the survey said they used service merchandisers to supply and stock general merchandise in at least some of their stores, down substantially from 56% the previous year.

In assessing labor costs connected with general merchandise, it must be noted that, because products are merchandised throughout the store, the labor costs are splintered in the same manner, and distrib-

Continued on next page

GM SPACE & LABOR

Profits generated by the general merchandise department were hard-earned. While very little additional space was allotted the department this year, managers evidently made the most of what they had. Weekly sales per gondola foot increased by eighty-five cents. The use of specialized display racks continues to aid space management in the department, offering merchandising flexibility without additional footage.

Indications are that general merchandise departments were able to maintain efficient operations without additional personnel in 1991. Each employee brought in an average of almost $400 more per week than in the previous year ($3,254 in 1991), while the number of full-time equivalent staffers fell from 2.5 in 1990 to 2.3 in 1991.

Size of Department (gondola feet)

Mean **347**	Median **425**
Conventional Stores **235**	Larger Stores **1,085**

Number of Employees

Full-Time	**1.4**
Part-Time	**1.7**
Full -Time Equivalent	**2.3**

Average Weekly Sales per Employee $3,254

Under $1,500	**3%**
$1,500 – $2,000	**18**
$2,001 – $2,500	**31**
$2,501 – $3,000	**34**
Over $3,000	**14**

Average Weekly Sales per Gondola Foot

Mean **$21.57**

Under $15	**10%**
$15 – $20	**23**
$20 – $25	**38**
$25 – $30	**20**
Over $30	**9**

How Much for Labor? (Labor as a Percent of GM Sales)

Store Employees Only — Mean **6.1%** — Median **5.2%**

Percent of companies using service merchandisers in at least some of their units: **45%**

GM MERCHANDISING & PROMOTION

The designation of a single section of the supermarket for general merchandise again was a rarity in 1991, with only 14% of managers reporting such a setup. Just under 60% of respondents said they dedicate sections for only a portion of their general merchandise, while cross-merchandising the rest throughout other store departments. And 27% said they had no central section for general merchandise, integrating all wares with other store offerings.

To better compete with discounters, supermarkets are promoting general merchandise more heavily than ever before. The number of retailers using point-of- purchase advertising has increased over the past two years from 50% in 1989 to 91% in 1991. Print media are being used more heavily as well. Newspapers were used by 82% vs. 71% last year, while store circulars were employed by 77% compared to 66% in 1990.

How GM is Merchandised (% Companies)

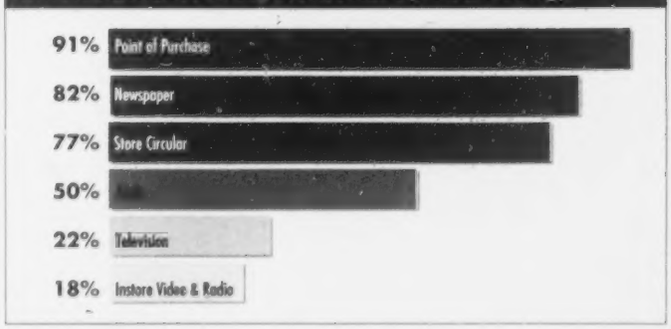
As Separate Section	**14%**
Cross-Merchandised Throughout the Store	**27**
Combination of the Above	**59**

Stores With Service Counters for GM **5%**

What is Sold at Service Counters?

- Cameras
- Fragrance
- Electronics
- Videos
- Jewelry
- Sports Trading Cards

GM ADVERTISING AND PROMOTION (Percent Using)



GM REVIEW

Continued from page 54

uted among grocery, courtesy desk and even perimeter department personnel.

With discount mass merchants, club stores, expanded home center operators and discount drug store chains continuing their dynamic expansion, it would seem that getting the message out about their general merchandise offerings would be very important to supermarkets.

While the degree of success of their communications efforts can be debated, most retailers are increasing their efforts to reach consumers.

The most dramatic example involved the use of point-of-purchase materials. Last year, 91% of retailer respondents said they used POP promotional material, up from 76% in 1990. Retailers also reported heavier use of newspapers, store circulars and radio advertisement in the effort to spark general merchandise sales.

On balance, is general merchandise a key weapon for supermarkets combating challenges from other classes of trade?

Looking at the facts revealed by this survey, supermarkets are increasing their general merchandise sales, but not as dramatically as before. So in a sense, they are gaining some ground but not much. In many of the sub-categories, supermarkets hold 15% of total sales. And in a few, such as batteries and film, their share is in the 25 to 30% range.

On the other hand, how much are the general merchandise specialists cutting into supermarket sales of traditional grocery products? The answer appears to be that they have gained some ground, but not as much as was feared. On average, outlets other than traditional supermarkets or smaller food stores account for about 10% of food sales, and about 20% to 25% of the sales of household supplies.

This shows that general merchandise can be used as part of a successful competitive strategy against the alternative formats. A strong GM/HBA operation, complementing a very strong food presence, seems to be the best strategy. SB

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